



Company Van Tax

Business Impact

Changes to the company van tax regime

Background

Changes to company van tax were introduced in April 2005, mean there will be no taxable benefit where employees have to take their company vans home and are not allowed any other private use.

The changes are being phased in, with some changes introduced back in April 2005 and others not until April 2007.

Inland Revenue introduce this new system to ensure company van tax is fairer and equitable and will address the abuse that has arisen with the use of double cab pick vans.

Changes introduced in April 2005

From 6 April 2005, a standard tax charge payable where a company van is made available to an employee for unrestricted private use is:

- £500 for vans less than four years old at the end of the tax year or
- £350 for vans four or more years old at the end of the tax year.

The age of the van is determined from the date of first registration.

In addition, the employer must pay 12.8% National Insurance on the benefit. There will be no tax payable by the employee or employer if private use by an employee is restricted.

Nil Charge

Under the new changes it is expected that a large number of company vans will no longer incur a tax charge for both the employer and employee.

This will only be applicable if the following are satisfied:-

- the only journeys made in the van are work journeys, eg. delivering goods or making calls to customers
- or
- all the journeys are work journeys and travelling between home and work only

The employer must be able to show to the Revenue that no tax is payable. It is recommended that this is demonstrated by keeping the following:

- mileage records
- sign an agreement about the van use
- have use of the van put into a contract of employment.

Free Fuel

If free private fuel is provided, then the standard tax charge will remain the same as this charge includes the benefit of free fuel used in the company van. The employer may have to pay NICs if he pays for or reimburses the employee for private travel.

Reduced Charge

Under the new regime, the standard tax charge may be reduced if the company van:

- is unavailable (excluded)
- is shared
- the employee makes payments in respect of its private use.

Shared Van Calculation

There are special rules for company vans that are shared by employees for their

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private use. The employee taxable benefit will generally be calculated by dividing the standard tax charge equally amongst all the employees sharing the van(s).

Example

Van A is 2 years old and Van B is six years old at 5 April 2005.

Add the two charges	Van A - £500
	Van B - £350
	=====
Total Charge	£850

£850 divided between 5 employees = £170 tax charge for each employee.

Changes from 2007

From 6th April 2007, the 'nil charge' will still apply to employees where the restricted private use condition is met (as mentioned above). However, the scale charge for unrestricted private use will be increased to £3,000. There will also be an additional charge of £500 for employer-provided fuel, regardless of the amount of fuel provided. Also, there will no longer be any discount for older vans.

Under these new rules, basic rate tax-payers who choose to have unlimited private use of their vehicles will pay 22% of £3,000, equivalent to £660 benefit in kind taxation from 2007. These changes do not apply to self employed van drivers where special exemption rules apply.

Who is affected?

From 6th April 2007, an individual will be taxed if a company van is used for anything other than travel to and from work.

However, if the van is used for private use to an insignificant degree – such as taking an old mattress or other rubbish to the tip once or twice a year) then no tax would have to be paid.

Record Keeping

To enable an employer to report the benefit for an employee who has had private use of a shared van, the employer will need to identify:

- The total number of vans which have been shared in the year

- The age of each shared van
- Periods of 30 or more consecutive days when a shared van was incapable of use
- Periods before the date on which a van became a shared van or after it ceased to be one
- Periods of 30 or more days when a shared van was available for the exclusive use of one employee

Definitions

Van

A vehicle of a construction primarily suited for the conveyance of goods or burden of any description (this does not include people) with a design weight (which the vehicle is designed or adapted not to exceed when in normal use and travelling on a road laden) not exceeding 3,500 kilograms.

Restricted Use

The restricted use condition is met if:

- The terms on which the van is made available to the employee prohibit its use otherwise than for the purposes of ordinary commuting or travel between two places that is for practical purposes
- Neither the employee nor a member of their family or household makes private use of the van other than for those purposes
- The van is available to the employee mainly for use for the purposes of the employee's business travel

Private Use

Any use other than for the employee's business travel.

Shared Van

A van is a shared van for a period if either it is available:

- Concurrently for the private use of more than one employee of the same employer throughout that period, or:
- Throughout the period to different employees of the same employer at the different times (excluding periods of 30 days or more during which the van is available to one employee only).

Excluded Days

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A day on which the van is unavailable or is a shared van or falling within a period of 30 or more consecutive days when the van was incapable of being used at all.

- The number of employees who used the shared van or any of the shared vans for private purposes
- Contributions required to be paid and actually paid by any employee having had private use of a shared van or vans

Useful websites

The below website may be helpful for further information and guidance.

- Inland Revenue
www.hmrc.gov.uk

For further information contact the Legal Services Team on: 01494 434747
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